

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
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FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9927
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY
E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: EXCHANGE MARKET AND RELATED DEVELOPMENTS

1. SUMMARY. YEN SPURTS TO 192.10 IN MORNING TRADING ON
TOKYO INTERBANK MARKET THURS JULY 27. REMARKS BY TREASURY
UNDER SECRETARY SOLOMON AND OTHER U.S. SPOKESMEN RECEIVE
WIDE MEDIA ATTENTION. MORNING PRESS CARRIES REPORTS THAT
BOJ HAS ASKED FEDERAL RESERVE SYSTEM TO ACTIVATE SWAP
FACILITY. END SUMMARY.

2. IN EXCEPTIONALLY HEAVY TRADING, THE YEN ROSE TO 192.10
IN MORNING TRADING JULY 27, A THREE YEN GAIN FROM THE
PREVIOUS DAY'S CLOSE OF 195.10. VOLUME IN THE INTERBANK
MARKET IN THE MORNING REACHED \$812 MIL. THE BANK OF JAPAN
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REPORTEDLY BOUGHT \$450-500 MIL IN THE MORNING TRADING.

3. MARKET COMMENTARY ON THE CAUSES OF THIS LATEST YEN
SPURT HAVE SO FAR BEEN SPARSE BUT MEDIA HAS GIVEN HEAVY
COVERAGE TODAY TO REPORTS THAT UNDER SECRETARY SOLOMON
TOLD WASHINGTON REPORTERS JULY 26 THAT THE STRONG RISE IN
YEN REFLECTS JAPAN'S CURRENT ACCOUNT SURPLUS AND THAT

SINCE THE YEN HAD FLUCTUATED MORE WIDELY AGAINST THE DOLLAR THAN HAD OTHER MAJOR CURRENCIES, THE HIGH YEN WAS MORE A YEN THAN A DOLLAR PROBLEM. SOLOMON'S REMARKS WERE INTERPRETED BY THE JAPANESE MEDIA AS A REBUFF TO COMMENTS MADE BY PRIME MINISTER FUKUDA AND OTHERS THAT DOLLAR

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STABILIZATION WAS A PREREQUISITE TO STABILIZATION OF OTHER INTERNATIONAL CURRENCIES. SOLOMON WAS ALSO REPORTED TO HAVE SAID THAT HE EXPECTED THE DECLINE IN THE DOLLAR TO END SOON AND THAT HE EXPECTED MORE ORDERLY MARKET CONDITIONS WOULD GREATLY REDUCE THE NECESSITY FOR U.S. INTERVENTION IN THE FOREX MARKET. THE MEDIA ALSO CARRIED REPORTS THAT HE AND TREASURY ASST SECRETARY BERGSTEN SEPARATELY FORECAST THAT JAPAN'S SURPLUS WOULD EDGE DOWN IN RESPONSE TO JAPAN'S GROWTH POLICY AND MEASURES TO CUT THE SURPLUS. THESE REPORTS ALSO PICK UP STATEMENTS BY STR STRAUSS THAT JAPAN'S TRADE SURPLUS ACCOUNTS FOR ONE-THIRD OF AMERICA'S TRADE DEFICIT.

4. JULY 27 PRESS ALSO REPORTS THAT THE BOJ HAS ASKED THE FED TO ACTIVATE ITS \$2,000 BIL SWAP FACILITY WITH JAPAN. AFTERNOON ASAHI GOES SO FAR AS TO REPORT JAPAN HAS OFFERED TO SPLIT EQUALLY ANY EXCHANGE LOSSES INCURRED IN USING THE FACILITY. ASAHI GOES ON TO SAY THAT THOUGH NO REPLY HAS YET BEEN RECEIVED, AND THE FRBNY IS THOUGHT

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NOT TO BE ENTHUSIASTIC ABOUT INTERVENING IN YEN IN NEW YORK SINCE YEN TRADING HAS BEEN RATHER LIGHT COMPARED TO TRADING IN DM'S AND SWISS FRANCS, THERE ARE SOME REPORTS THE U.S. MAY BE MORE RECEPTIVE TO THE IDEA NOW THAN IT HAD BEEN HERETOFORE.

5. AT HIS REGULAR WED PRESS CONFERENCE, BOJ GOVERNOR MORINAGA IS REPORTED TO HAVE SAID THE BOJ WOULD CONTINUE TO INTERVENE TO COUNTER SPECULATIVE ACTIVITY AND RE-ESTABLISH ORDER BUT THAT BOJ INTERVENTION WAS NOT AIMED AT PEGGING THE RATE AT A CERTAIN LEVEL. HE WAS QUOTED AS SAYING "THE JAPANESE MARKET HAS REACTED TOO SENSITIVELY TO SPECULATIVE VIEWS ABROAD AND CALM WOULD BE RESTORED SOONER OR LATER SINCE THE MARKET HAS GONE TOO FAR."

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